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SECURITY INFORMATION

16 July 1952

STATUS OF THE ECONOMIC INTELLIGENCE PROGRAM AS OF 30 JUNE 1952

A. Economic Intelligence Research

In addition to the NIS there are other basic economic intelligence research programs underway that are maintained on a current basis. These programs are carried out by analysts who are also charged with focusing this research on national security problems.

1. Soviet Bloc

While the number of professional personnel working on special segments of the economy (e.g. electronics, metals, electric power, etc.) appears to be relatively adequate, the lack of raw data has made it extremely difficult to build up satisfactory basic intelligence on many aspects of Soviet Bloc industry. As a general proposition it can be stated that intelligence on industrial production, while far from complete, is reasonably adequate. On the other hand, intelligence is generally inadequate on such important industrial questions as: the consumption pattern of industrial items; input requirements of industry for labor, materials, and equipment; certain details on important individual plants (such as capacity and production); and the quantities and location of stockpiles of strategic items.

Data on foreign trade is relatively plentiful but because of the large number of man-hours required to put the data in a useful form, it is usually grouped in broad categories of items. This results in a lack of specificity and details (such as the description, origin, trade channels and destination) of individual items are usually not readily available to the researcher. Intelligence on clandestine trade

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is very spotty. Very few analysts are working on the subject of international finance and information on this subject is scarce. There are, for example, no reasonably current studies of: Soviet Bloc assets in the United States; Soviet balance of payments; or Soviet foreign exchange availabilities and dispositions.

In the field of transportation there is a sizeable intelligence research effort, but data is lacking on certain of its important aspects. On the subject of shipping, for example, while data on ship movements is relatively good, information on the cargoes carried is very poor. Intelligence on rail transportation is relatively adequate on such general matters as ton-kilometers of freight carried, location of principal rail lines and production of locomotives and rolling stock; but complex questions such as the composition of freight traffic within the USSR and the capacity of the Trans-Siberian railroad must undergo more intensive research. Intelligence on the automotive industry is generally better but is of less importance.

Population and manpower intelligence is relatively adequate in the matter of aggregates but information ^{con} the composition of these aggregates is much weaker. Important ^{studies} ~~studies~~ relating to the productive efficiency of workers in key munitions industries, for example, have not been undertaken and would be hampered by a shortage of information.

On the subject of agriculture, intelligence is relatively good although some specific aspects — notably the quantity and location of stockpiles — are weak.

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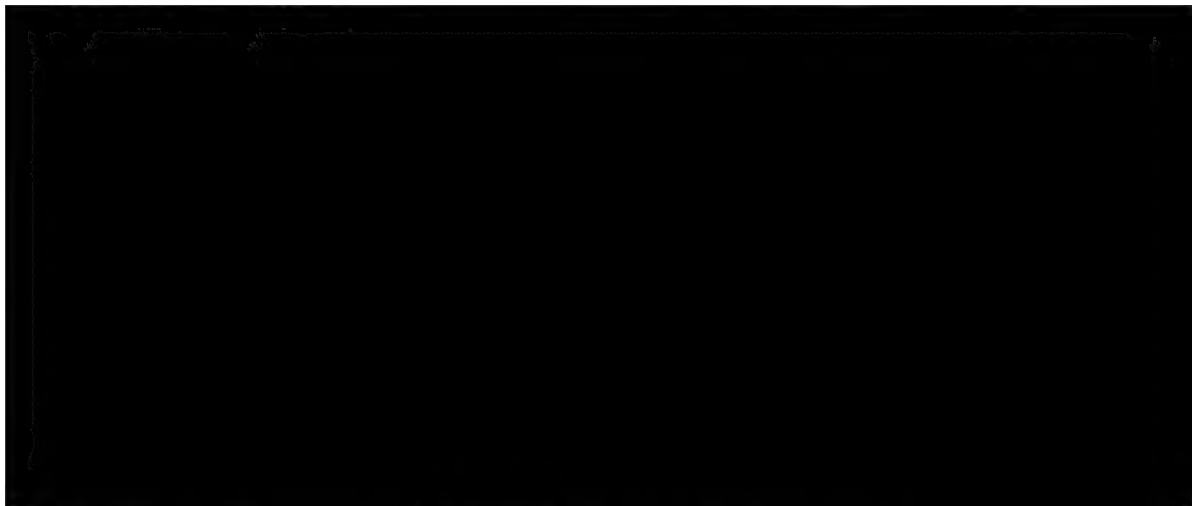
Intelligence on the structure and organization of the economy and the way it works is reasonably adequate.

Until recently the economic intelligence community has been very limited as to the number of broad integrated studies and special analytic reports that it might prepare at any one time. General economists and analysts trained in handling broad problems, as opposed to the specialized analysts such as the commodity experts, have been relatively small in number. However, CIA is in the process of building up a staff of these analysts and within the next year it is expected that this problem will have diminished.

Personeel-wise the economic intelligence community is in a better position to produce studies on specific segments of the economy (e.g. transportation, electric power, petroleum, metals and minerals).

In addition to the continuing basic research effort ~~going on in those agencies concerned with economic intelligence on the Bldg~~ there are certain special projects and programs designed to give a major support to this ~~research~~ effort. Among ~~The~~ more important are the following:

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 The first report under this program has just been prepared.

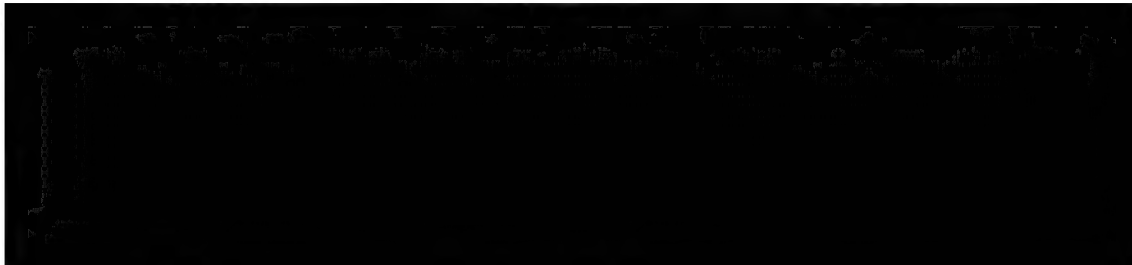
(b) Use of other Techniques and Methods

Among the innovations which became established methodology in CIA in the fiscal year 1952 are the use of input-output analysis, estimation of future trends by extrapolating index number trends, the use of ruble prices as an aggregation device and measurement of Bloc economic capabilities by estimating and analyzing national economic accounts.

(c) Analysis of Soviet Materials and End Items

There is currently underway a program to analyze in detail certain Soviet materials and end items. In one instance


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(d) Economic Intelligence Handbook

A preliminary edition of a statistical handbook containing data -- principally production data -- on Soviet-economic activity has been prepared. This handbook is being expanded and within the next year will contain concise descriptive analytical and statistical material on the entire Bloc economy.

(e) Coordination of Economic Research --- The Economic Intelligence Committee (EIC)

The EIC in its first year of operation -- July 1951 to June 1952 -- completed one  study at the direction of the IAC, two major research contributions to the Office of National Estimates and numerous other papers of value to the

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intelligence community. The lack of analytic personnel with general competence in economics was one of the principal causes for delay in the preparation of these studies and this seriously limited the number of projects that could be undertaken. The planned increase in the number of professional personnel assigned to the EIC Secretariat ~~and the programs noted in sections A and B above~~ will begin to expand the production capability of the EIC by late 1952.

In connection with this problem of priority the EIC has initiated surveys within its subcommittees to determine the most critical research problems and to decide which problems require improvement in collection and collation. In addition to these surveys the subcommittees concerned with various aspects of research -- electronics, petroleum, etc. -- are engaged in a process of cross-fertilization and are attempting to informally rationalize the various Agency programs for basic research in each field.

2. Communist China

There are critical deficiencies in the economic research programs relating to Communist China. Altogether there are probably only one or two professional analysts in the US Government engaged in research on Communist China, on a general area or special-economic-problem basis; and the number of professional analysts who work on various segments ~~(transportation, agriculture, etc.)~~ ^(e.g., transportation, agriculture etc.) of the economy is not large. Moreover, there is relatively little current economic information available from the field and as a result the economic intelligence community is unable to answer adequately such critical

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in Communist China, What is the degree of economic stability, What is the extent of Soviet-Communist Chinese economic relations", etc. While it is not suggested that the intelligence requirements for research on the Chinese economy demand anything like the effort devoted to research on the USSR, more ^{research} ~~effort~~ is needed on general analysis ~~of~~ trade, transportation, petroleum, agriculture, and munitions. Appropriate corrective steps are being taken to improve this situation, although there will probably be a time lag of three to six months before these measures become effective.

3. Non-Bloc Countries

(a) General

In the non-bloc countries

The degree of adequacy of foreign economic intelligence relating to various economic sectors varies widely. Foreign agricultural activity, for example, has been reported upon in great volume for many years by governments, by international organizations and by trade associations; to a lesser degree minerals, including petroleum, and transport industries have also been reported upon and analyzed in detail. In contrast, information on manufacturing industries is inferior. Generally speaking the commodities which can be classified in more or less homogeneous categories for statistical purposes are better reported upon and analyzed than products like chemicals, machinery, electronic devices, etc. These latter commodities about which it is conceptually most difficult to generalize are just the ones that are usually reported in large but almost meaningless categories.

Intelligence on international trade and finance varies in

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subject. Trade data is relatively good although there are important problems. For example, recorded trade movements frequently do not accurately reflect the ultimate destination or origin of the goods and there are great differences in the classification systems. Reporting on non-trade items is generally poor. In recent years there has been a marked improvement in the information on national accounts, but, except for a few countries, data on which the national accounts are based are quite unreliable. Labor and population reporting also is fairly satisfactory with greatest inadequacies in specific geographic areas, but some subjects, e.g. migration, are poorly reported everywhere.

Existing intelligence materials are not as well utilized as they should be because they are frequently hard to locate; are distributed too slowly; and indexing and cataloguing systems are not sufficiently comprehensive.

Variations in quality of intelligence products may be blamed chiefly on the fact that there are too few analysts whose capacities are too widely extended.

(b) Latin America

There are no unusual difficulties in securing economic information from and about Latin America. The only exception is Argentina, where the government has severely curtailed publication and dissemination of statistical data. Our weakness in the Latin American area stems from the circumstance that Latin American statistical services are at times faulty and are not as complete as they are in the United States or in Europe. Moreover,

economic reporting has not been attuned to the requirements of

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intelligence research. This problem is now being remedied.

We have on the whole been able to meet intelligence research requirements, although at times it has been necessary to operate with somewhat less than up-to-date information. Utilization of Latin American statistical data is at times handicapped by a shortage of trained analysts.

Perhaps the most notable gap in our intelligence potential is in the area of capabilities in terms of desirable and attainable objectives of economic development in Latin America. We do not know enough about the orientation of "economic thinking" of those in Latin America who influence and direct economic policies. This is a particularly important aspect of the process of estimating probable developments.

We are reasonably well equipped to deal with economic trends and changes in Latin America as a whole, although in some respects and for some regions our information is not very much more than an educated guess (e.g. national income, rate of accumulation of capital, etc.). Even these gaps, however, are being gradually filled out as a result of expansion of improvement in the national and international statistical services.

(c) Near East, South Asia and Africa

There are gross deficiencies in our economic knowledge of almost all countries in this area partly because reporting has been incomplete and even more because the basic information simply does not exist.

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Intelligence has generally been able to meet requirements for some specific or particular studies. For example, over 100 briefing papers were turned out in support of the TCA program in South Asia when that program was getting underway.

Intelligence has been much less successful in preparing broader studies and estimates. Here the problem is not so much a lack of material as it is the acute lack of trained personnel capable of sophisticated economic analysis.

(d) Western Europe

State contribution to be in Friday, 18 July 1952.

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B. Adequacy of Economic Intelligence to Support Activities and Programs Relating to the National Security.

By and large one group of analysts within each department or agency is usually charged with providing economic research contributions to the various programs and major intelligence papers requiring economic intelligence support. These programs and papers include National Estimates, the Economic Warfare Program, Economic Intelligence Committee Studies, and Military Studies including Target Research. In addition, these same analysts provide intelligence to meet the operating needs of their particular departments or agencies. As noted in section A above this has put a strain not only on the research specialist but particularly on the limited number of top personnel who have general analytic competence and on whom the main burden falls. This has been a key factor in limiting the volume of intelligence output.

1. National Estimates

While it is possible to prepare economic intelligence contributions to National Estimates which are adequate for most broad generalizations and conclusions it often is not possible to prepare these studies with the degree of accuracy and the amount of detail that is required to make certain critical points in an estimate or that might be required to make an estimate more precise and meaningful. This is evident from the intelligence deficiencies cited in section A above. As an example, while there is some reliable intelligence on the Soviet electronics industry it is not sufficient to provide a thorough understanding of the industry as it relates to Soviet air defense capabilities. Intelligence is better able to answer this kind of question now than it was a year ago, however, and it is expected that certain measures and developments

now underway -- a few of which were noted in section A -- will result

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in considerable improvement in our research base within the next year. Nevertheless there must continue to be a careful designation of priorities on prepared projects in order to insure that the limited research potential is focused on projects of major importance to US security.

2. Economic Warfare

Intelligence in support of NSC 104/2 and certain special programs such as the Battle Act will require increased economic intelligence support. The resources devoted to this effort, however, must bear some reasonable relation to other high priority tasks on which our resources are focused. Due regard must be given to the question of priorities and the inherent difficulty of securing information from within the Soviet Orbit. In the light of this and in view of the limitations of intelligence noted in section A much of the needed intelligence will often not be available in the quantity and depth of detail desired. It is expected, however, that the newly established coordinating committee will insure that the available intelligence is brought more fully and immediately to bear on questions arising under this program.

3. Soviet Bloc Capability Studies

Among the highest priority tasks of the economic intelligence community is the continuing study of Soviet Bloc economic capabilities for war. This study currently employs for the first time a modified form of input-output analysis and in addition uses certain index number techniques. Though it is not expected that the first effort will be entirely adequate or reliable it is expected that it will lead to more accurate and meaningful estimates. Certain major

intelligence deficiencies have already been identified in the process

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of preparing this study and knowledge of these will be of assistance in directing future research programs. The basis data derived from the study will, of course, be useful for many other intelligence purposes including support of economic warfare measures.

4. Target Research

The intelligence deficiencies described earlier in section A are particularly applicable to an analysis of the problems of air target research. This is discussed in greater detail in section ____.

5. Vulnerability Studies

In addition to the assessment of Soviet Bloc vulnerability to air attack many other vulnerability studies are undertaken from time to time. These include analyses of the vulnerability of the Soviet Bloc to economic warfare, its vulnerability to biological warfare and so on. As on other studies it can be stated that economic intelligence permits reasonably accurate general conclusions but often is not adequate to permit a comprehensive and detailed analysis of the problem. As the research base become broader and deeper these questions can be answered more completely. In the interim one solution is to allow time for an intensive research effort. A recent intelligence research paper of considerable depth on the vulnerability of Soviet crops to biological warfare proved the value of allowing time for research preparation.

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C. Studies of Intentions

Economic intelligence regularly contributes to the Watch Committee Reports which are designed to reveal future courses of action by the Soviet Bloc. Contributions on this subject are spotty and by their very nature inconclusive, though in context with other intelligence they are useful. For the most part this kind of report calls for the sort of intelligence details that are generally scarce. For example, a particular major tractor plant has converted to the production of tanks; or the railroad moving into point X are carrying items largely of a military and logistical nature. In addition to current spot contributions to the Watch Committee Reports, occasionally a research paper is prepared on such topics as the general subject of conversion to armament production or the level of military expenditures in the Soviet budget, though the latter is never very meaningful.

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